GOVERNMENT OF THE DISTRICT OF COLUMBIA

Department of Health Care Finance

Testimony of

Dr. Julie Hudman

Director

Department of Health Care Finance

Council of the District of Columbia

Committee on Health

Annual Budget Hearing

May 3, 2010

11:00 AM

John A. Wilson Building

1350 Pennsylvania Avenue, NW

Washington, DC 20004

Good morning, my name is Julie Hudman and I am the Director of the District's Department of Health Care Finance (DHCF). I am pleased to provide testimony about the accomplishments the Department has made since its creation and about our goals for Fiscal Year 2011. Established as a cabinet-level agency on October 1st, 2008, DHCF operates the Medicaid and Alliance programs, thereby providing health coverage to 215,000 District residents. One-third of District residents and 60 percent of District children receive health coverage from the Department of Health Care Finance.

Since the Department's creation, DHCF has built a strong foundation serving District residents and maximizing District and Federal resources. In Fiscal Year 2011, I look forward to building upon this foundation to continue to fulfill our agency mission, of *improving health outcomes by providing access to comprehensive, cost-effective, and quality health care services for residents of the District of Columbia.*

The Department is proud to have released the District's first health insurance study. *The 2009 District of Columbia Health Insurance Survey* reveals that only 6.2 percent of District residents are uninsured. Just 3.2 percent of District children are uninsured. These results placed the District second in the country, only behind Massachusetts, for providing insurance coverage to residents. We look forward to using this study to provide access to quality health care for all District residents who are eligible for our programs.

The Department made substantial improvement in this year's Comprehensive Annual Financial Report (CAFR) report. In 2008, Medicaid was responsible for 9 findings in the CAFR and was listed as a material weakness. In 2009, Medicaid was limited to 5 findings and was again listed as a material weakness. This year, Medicaid has only 3 findings and has been removed as a material weakness. This drastic improvement was possible during our first year by creating a solid foundation for the Department through improved systems, personnel and internal controls.

We greatly increased the efficiency of our payment systems when we implemented a new Medicaid Management Information System (MMIS). New features include a user-friendly website for providers including provider enrollment and claims submission, fraud and abuse detection and surveillance software to report trends that may lead to investigation, and lightning fast eligibility verification. For example, providers using the old system of Interactive Voice Recognition (IVS), verifying eligibility of 10 beneficiaries took 21 minutes, however using the new MMIS system, the same process now takes 2 minutes. By operationalizing the new MMIS system more quickly than any other jurisdiction using this system to date, our department has increased efficiency, maximized our staffing resources and improved our services to providers.

The Department worked tirelessly during Fiscal Year 2009 to improve the structure and knowledge base of our staff. In August, the Department completed a major realignment, shaping the organization of our agency personnel to best fulfill our Department goals. Even with a limited human resources staff, we completed over 110 hiring actions during Fiscal Year 2009 and successfully negotiated the impact and effect of the realignment with three unions. In addition, the Department received approval from the Centers for Medicare and Medicaid Services (CMS) to receive federal participation for severance and retirement costs, lessening the burden of change for District taxpayers. Furthermore, the Department has held multiple "Medicaid 101" training seminars and brown bag lunches for staff to improve their understanding of Medicaid services, the State Plan and the limitations and opportunities of federal entitlement programs. Recognizing the citywide limitations on travel and conference budgets during these difficult economic times, the Department utilized internal resources to share this knowledge.

DHCF greatly increased the cost-effectiveness and efficiency of our operations and programs in order to promote integrity and quality in our programs. In 2009, DHCF collaborated with the District's Office of the Inspector General's Medicaid Fraud Control Unit (MFCU) to redesign DHCF's investigations unit. These changes resulted in the referral of 21 cases of potential fraud – nearly triple the prior year's amount. One such case, involving a home care agency, included collaboration with the OIG's MFCU, United States Attorney's Office for the District of Columbia and the Federal Bureau of Investigation. As a result, DHCF currently seeks to recoup over $10 million in possible fraudulent claims from this provider.

In an effort to preserve and reduce abuse of limited resources, DHCF rolled out initiatives to ensure that residents who enroll in the Medicaid or Alliance program are indeed District residents who lack access to other public or private insurance. This past year, DHCF worked with the Department of Human Services to implement new policies regarding proof of residency for Alliance beneficiaries and limiting access to District programs if the beneficiary has other health insurance. These changes help preserve these programs for District residents.

To access additional resources, DHCF, in collaboration with Department of Health, applied for and received a $5.1 million grant for our Statewide Health Information Exchange (HIE) Planning Cooperative Agreement by the US Department of Health and Human Services. The District's project will leverage current efforts to establish a seamless District-wide integrated interoperable HIE, the first step in achieving the ultimate goal of developing patient based health care records for all District residents, which can be accessed regardless of clinical setting. We have already begun engaging stakeholders across the region to develop strategic and operational plans for the creation of a seamless HIE, and we are developing our internal capabilities to support this effort and will engage outside contractors, as necessary, to meet the requirements of the grant.

As you know, the District faces a significant budget shortfall and as the largest local budget, DHCF did our part to reduce spending District wide by presenting a responsible local budget that is almost 3% below our adjusted FY10 levels. In spite of a challenging economic climate and significant enrollment growth in both of DHCF's entitlement programs, our budget ensures residents' continued access to health care services by maintaining Medicaid eligibility levels and supporting the Alliance program for residents without access to other health insurance options. In order to sustain these eligibility levels while maintaining a responsible reduction in spending, our budget maximizes federal funding opportunities, spreads spending reductions across all providers and shifts qualified expenses to dedicated funding streams.

Achieving these objectives is a significant accomplishment given the recent growth in enrollment in both Medicaid and the Alliance. As reported in a recent Kaiser Family Foundation paper titled *Medicaid's Continuing Crunch in a Recession*, which looked at State's Medicaid budgets mid-way through FY 2010, the vast majority of states have experienced Medicaid enrollment and spending trends at or well above the levels projected at the beginning of the year – and the District is no exception. The District's Medicaid managed care enrollment grew 8.3 percent in FY 2009 and is expected to grow 7.2 percent by the end of FY 2010 – outstripping our FY 2010 budgeted enrollment projections as unemployment nears 12 percent. Unemployment is projected to remain above 10 percent for all of FY 2011, --a slight decrease from recent levels -- and our managed care enrollment numbers reflect this by projecting the lowest growth rate in the last three years at 6.7 percent. In addition to fully funding enrollment growth, our budget further protects beneficiaries by continuing to ensure they face no cost sharing and very little changes to benefits.

Our budget supports current staffing levels for FY11 and increases FTE for programs funded by the Federal government and the Healthy DC assessment. Ever mindful of necessary spending reductions, all DHCF employees are subject to the city-wide freeze on automatic pay increases.

The most exciting proposal in the Department's budget is the expansion of our Medicaid program for all eligible adults living between 0 and 133 percent of the federal poverty level (FPL). Due to the District's long standing commitment to provide health coverage to all residents below 200 percent of poverty, we are in the enviable position of being poised to take advantage of the recent passage of health reform legislation that gave states the option of implementing a new Medicaid eligibility category that covers childless adults in the Medicaid program immediately through a simple change to the Medicaid State Plan instead of through the complex 1115 waiver process. While this population has been served by the Alliance program, the move to the Medicaid benefits both the beneficiary and the District. The beneficiaries will receive services that are not covered under the Alliance program such as mental health, substance abuse, and long-term care services, and the District benefits by having the federal government pay for 70 percent of the cost of care. DHCF is already working with the Centers for Medicare and Medicaid Services to submit a Medicaid State Plan Amendment (SPA) to increase eligibility for the Medicaid program for eligible District residents with incomes up to 133 percent of FPL.

Additionally, because of health care reform, DHCF will no longer need the 50 to 64 year old waiver that uses DSH dollars to expand coverage because those individuals are covered by the new Medicaid eligibility category. The funds that were used for the 50 to 64 year old waiver will instead be used towards a Medicaid 1115 waiver that expands coverage under the Medicaid program for individuals with incomes between 134 percent and 200 percent of the poverty level by transitioning these individuals from the 100 percent locally-funded Alliance program to the Medicaid program. Again, like the new Medicaid eligibility category, these transitions will provide a broader benefits package to the residents who move into the Medicaid program as well as save the District over $5 million in FY 2011 by maximizing federal resources.

The Department also looks forward to continued savings through an elevated Federal Medical Assistance Percentage (FMAP), which originated in the stimulus bill and we expect will be extended through employment legislation on Capitol Hill. These savings are projected to continue through the first three quarters of FY11, and our budget reflects this. To account for the final quarter of FY11, during which this budget assumes the District will return to its original FMAP, $37 million is transferred from Federal Medicaid funds to Local funds.

To sustain access to our entitlement programs, DHCF will offset the expenses of recession-driven enrollment growth through cost saving initiatives which include a combination of provider rate reductions and assessments. Our budget spreads these requirements across nearly all providers, requiring all major providers to contribute either through an assessment or through a reduction in reimbursement rates. Many providers are already contributing through assessments such as nursing facilities, non-Medicaid MCOs and Intermediate care facilities. Base reimbursement rates for these groups remain flat. The Mayor's FY 2011 budget proposes to extend the MCO assessment to Medicaid MCOs, generating an additional $8.6 million dollars.

The budget also proposes a hospital assessment of 1 percent on inpatient and outpatient net revenues that will provide $25 million in dedicated funding for FY 2011 and is a key reason we are able to protect beneficiaries from otherwise painful eligibility reductions and benefit cuts. Many states already successfully use hospital assessments to leverage Federal funds and, according to the aforementioned Kaiser report, more are considering this useful tool as a means to maintain their programs and avoid eligibility and benefit reductions. This $25 million assessment will allow the District to draw down almost $84 million in Federal funds.

The Department thanks you, Chairman Catania, and the Committee on Health, for your leadership in the recent passage of the Medicaid Resource Maximization Amendment Act of

2010, which allows DHCF to support Medicaid and Alliance funding through a 2 percent assessment of Medicaid MCOs. We have already begun implementation of this legislation, and we are ready to implement other provider assessments which will allow us to support increased enrollment in our programs and sustained access to quality health care for District residents.

For other provider groups, including physicians, dental providers, and non-physician providers, DHCF will align provider reimbursements to more closely match national averages. For example, DHCF currently pays among the highest Medicaid dental reimbursement rates in the nation. In order to reflect the economic realities at this time, we will more closely align dental rates with those of neighboring states, generating Local fund savings of $200,000. These funds will help preserve dental services as a benefit available to both Medicaid and Alliance beneficiaries.

DHCF also looks to shift qualified expenses to available dedicated funding streams. Our budget supports increased enrollment in the Alliance through funds from the Healthy DC and Health Care Expansion Fund. This budget retains a portion of Healthy DC funds in reserve to cover unanticipated enrollment growth in FY11, and as the District's economic situation improves, we will use these funds for expanding coverage. Additionally, nursing home payments will be supported using Nursing Home Quality of Care Fund, intermediate care facility payments will be supplemented through the Stevie Sellows Quality Improvement Fund, and hospital payments will be supported through the Hospital Fund.

In addition to our FY 2011 budget proposal, the Department has submitted a FY 2010 gap closing proposal that fully addresses our projected $29.5 million spending pressure with DHCF resources. Many other states are currently facing mid-year benefit changes and rate reductions to close the budget gaps created by soaring Medicaid enrollment and spending. However, we have been able to successfully close our gap through a combination of newly available stimulus funding for our Medicare Part D obligation, as well as the judicious use of fund balances in the Nursing Home Quality of Care Fund and the Healthy DC and Health Care Expansion Fund.

Conclusion

In this challenging economic climate, I am happy to continue our work with the Committee on Health to achieve a balanced budget District- wide while still protecting access to high quality health care for District residents, thereby continuing our leadership among the nation in providing health coverage.   My staff and I are happy to answer questions at this time.